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THE BEST MODEL FOR MICRO-LENDING: SELF-HELP GROUP OR JOINT LIABILITY GROUP?

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ABSTRACT

Ideological schisms in Indian micro-finance have often been interpreted at the level of practice through the adoption of different delivery models including the community empowering Self-Help Group (SHG) model and the financially efficient Joint Liability Group (JLG) model. While the SHG is a saving-led slow growth model and unique to India, JLG is a credit-led fast growth model, loosely based on the Grameen model of Bangladesh. The article describes the two models and strives to develop a comparison between them along several parameters. The paper argues that both models have their advantages depending upon external factors like competition, homogeneity within population, among other factors. Both models live up to their optimum promise when in alignment with organisational features like culture and its strength, leadership etc. Country like India is often afflicted by duality of external factors ranging from socially-driven and stratified social structures in rural areas to the financially-driven urban poor population. It is this duality that necessitates the existence of both the models, matching to the diversity of target population and characteristics of the implementing micro-finance organisation.

Introduction

Perhaps few concepts vis-à-vis poverty alleviation in developing countries have generated as much excitement, as micro-finance. The concept that originated in Bangladesh in the early 1970s has become a global phenomenon. India, which offers one of the largest micro-finance landscapes, has garnered a significant place for itself in this thriving movement. All over the world, India included, most micro-finance organisations use a group-based model for service delivery. However, unlike many developing countries, India has a dual model of service delivery in micro-finance. On one hand, there is the Self-Help Group (SHG) model and on the other, there is the Joint Liability Group (JLG) model. These two models are representations of two different methodologies accompanied by different sets of assumptions about the people served by them. The "home-spun" (Sa-Dhan) SHG model of micro-finance owes its origins to the "poverty alleviation school of micro-finance" and the "adapted" JLG model to the "financial system school". The debate between these two schools has been an ongoing one in micro-finance discourse. Today, the debate has percolated down to the level of micro-finance models with micro-finance organisations displaying a strong preference for the two models mentioned earlier.

The rural banking sector in India witnessed a mass expansion after the nationalisation of banks in the 1960s with

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subsequent directives from the Reserve Bank of India (RBI) regarding encouraging banking in unbanked regions of the country through schemes and programmes including priority sector lending, Regional Rural Banks, etc. Apart from formal banking, credit-cooperatives were also promoted by the Indian States to cater to the unbanked poor population.However, despite efforts spanning several decades, the formal financial system and the state initiated poverty alleviation programme could not succeed in meeting their obligations towards the poor (Chakrabarti & Ravi, 2011; Mahajan & Nagasri, retrieved in 2013) and the need for an alternative model was felt. In response, the National Bank for Agriculture and Rural Development (NABARD) along with NGOs like Mysore Resettlement and Development Agency (MYRADA) came up with an SHG-based model of micro-finance in the late 1980s. As described by Fernandez (2010),

"To explain this a little further, we need to briefly trace the history and the concept of what a real SHG is.... Between 1984-1986 Myrada (an NGO) worked with the primary Cooperative Societies as the base institution. .... benefits went to a few powerful families including the President, Secretary and a few others.... Myrada encouraged them (*the poor*) to challenge this situation. They broke away and formed small groups - the members were self selected; we later realised that the groups were based on affinity among the members. Affinity in turn was based on relations of trust and mutual support which existed before we entered. ....Myrada encouraged them to meet weekly; each member contributed to the agenda which comprised issues related to health, domestic problems, need for credit etc. They were encouraged to save and Myrada staff kept records of meetings and accounts....(Fernandez, 2010 [online])."

Thus, the Self-Help Groups (SHGs) are essentially affinity based savings and credit groups* that are small in size (5-20 members) not necessarily registered entities, and have members with same social and financial backgrounds.The group meets on a regular basis together with a staff member from the promoting institution or organisation to collect and/or deposit money. The group members undergo some basic training in financial literacy, and social issues (Kabeer, 2005, p. 100-102; Aminur Rashid, 1997, p. 201). In other words, SHGs are groups of micro-entrepreneurs having homogenous social and economic background; voluntarily coming together to save regularly small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. The SHG-based model is a community-based solution operating under a collective action framework and involves a time and human resource intensive process before the collective of the poor becomes fully functional.

After its successful experimentation in many parts of India, NABARD launched the SHG-Bank Linkage Programme (SBLP) in 1992 and thus started the largest micro-finance programme in the world, with more than 2000 NGOs involved in the SBLP (Chakrabarti & Ravi 2011).

With commercial banks showing more interest in the 'micro-finance market', largely inspired by a policy directive of the RBI, most NGO-MFIs were able to avail of debt funds easily. This led to reduced dependence on donors' funds and a change in the hitherto commercial approach of some NGO MFIs aspiring to become giant financial intermediaries. Many of these

* In fact, the groups that Myrada worked with were called SAGs (Self-Help Affinity Groups).

MFIs adapted the Grameen model*, termed as JLG, to expand their micro-finance operations. The adapted Joint-Liability Group according to NABARD guidelines, is also an informal group comprising preferably 4 to 10 individuals ... coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail of loans. The management of the JLG is to be kept simple with little or no financial administration within the group. A basic requirement for joint-liability security for bank loans is that the members form themselves into groups of people who know and trust each other. Each year the group members who want to borrow sign a contract in which they accept liability not only for their own individual loans, but also for the loans borrowed by other members of their group, hence the term 'joint-liability'. Another major difference between the two models is savings as a pre-requisite for the SHGs to initiate inter-loaning and subsequent linkage with a bank whereas the NBFCs as legal entities are not allowed to collect deposits as per applicable regulation in India (Chakrabarti & Ravi, 2011).

JLG is a fast-growth model focusing on the supply side of micro-finance. It was felt that if micro-finance could be made profitable, an increasing number of operators would join the market eventually benefiting the customer, the poverty-stricken client. Commercial micro-finance organisations have witnessed unprecedented growth in recent years with a majority of them having adopted the JLG model (Table 1). Eight of the top 10 micro-finance organisations, defined by their ability to operate in a scalable manner and measured through loan outstanding, have adopted the JLG model, indicating the model's growth potential. Interestingly, all these fast-growing organisations started their micro-finance operations during the post-liberalisation era when market-based models operating on the principle of profitability were being encouraged. Ironically, while the Grameen model of Bangladesh is a proponent of the poverty alleviation school, its translated Indian version – the JLG model – has become a symbol of commercialisation.

The intention of this paper is to clearly spell out the distinction between these two models along with their underlying assumptions. The paper also provides a framework for examining the link between the characteristics of the promoting organisation and the grouping model to be adopted.

Delivery Models

SHG And JLG: What Are They? : The SHG is a savings-led model that has been mainly formed by women members. The group formation process in SHGs is generally facilitated by an NGO, an MFI, or a bank. Group formation is followed by members making regular savings contributions. The savings contributions may be collected on a weekly, fortnightly, or monthly basis and generally remain in the custody of the group's elected head till the group opens a bank account. It has been observed that the regular

* In the Grameen Model "A borrower can only receive loans by forming part of a borrowing group, as trust and peer pressure are the operational mandates for ensuring the repayment of loans. In this way, the pressures of collective responsibility replace the need for conventional collateral requirements and give the GB system its strength. Initially, only two group members receive a first loan, for which they are given a six-week period to begin repaying the principal and interest before the remaining members in the group become eligible for receiving loans. GB requires a repayment scheme based on 50 weekly instalments, and encourages savings by allowing 5 per cent of loans to be credited to a group fund.
(Source:http://www.persga.org/Files////Common/Socio_Economic/BankPoor_Concept.pdf, retrieved on June 12, 2013)

Table 1: Lending Model of Top Ten MFIs

Name of the MFIs	Lending Model	Loan Outstanding as on Sep. 2008 ($ Million)	Year of commencement of MF
SKS Microfinance Ltd	JLG	328.08	1998
Spandana Sphoorty Financial Ltd	JLG, Individual	215.76	2000
Share Microfin Ltd	JLG, Individual	154.22	2000
Asmitha Microfin Ltd	JLG	88.99	2002
Sri Khestra Dharmasthala Rural Development Project	SHG	73.08	1995
Bhartiya Smaruddhi Finance Ltd	Diversified	69.87	1997
Bandhan	JLG	61	2001
Cashphor Micro Credit (CMC)	JLG	25.75	1997
Grama Vidlyal Microfinance Pvt Ltd	JLG	23.68	1999
Grameen Financial Services Pvt. Ltd	JLG	23.16	1996

Source: CRISIL, 2009.

savings contributions may vary from $0.18 to $ 1.83 depending upon the members' economic status. In view of the caste-based social system prevalent in India, members are encouraged to form groups within the same community with members hailing from similar economic backgrounds. The size of each group varies from 12 to 20 depending upon geographical conditions, population density, and convenience of the community as well as the promoting NGO, etc.

The money saved by group members is used for inter-loaning*. The SHG members then start borrowing money for various purposes at an interest rate while adhering to the terms and conditions decided by group members jointly. The SHG opens a savings account under the name of the group by submitting valid documents including group constitution, meeting minutes etc. Generally, after six months of inter-loaning, the group becomes eligible for a bank loan. Banks give loans in the name of the group after checking the latter's record of inter-loaning and other books of accounts. The SHGs may never go to the bank; they may satisfy their needs only by inter-loaning or by simply saving money without ever withdrawing it (Harper, 2000). Group members generally use their group savings to meet emergency and consumption needs. The SHG offers its members the facility to borrow for purposes like family functions or illnesses, which are not met by any formal financial mechanism.

An SHG operates as an autonomous financial institution in its own right (Harper, 2002). Group members decide on the amount to be saved per member, the maximum loan size to be sanctioned, the repayment schedule, and guarantee mechanisms during loan sanctions. Members' loan applications are prioritised on a need basis with the group enjoying the flexibility for operating their businesses. The SHGs usually

* A term commonly used to indicate borrowing by the members from the savings contributions available with the group.

hold weekly meetings to collect members' savings and maintain accounts. The emphasis on savings is based on the assumption that "forced saving will enable the poor to accumulate tangible and intangible capital, which they can use to climb out of poverty" (Mannan 2009, p. 221). The functioning of SHGs involves a substantial amount of documentation and often members are trained by promoting NGOs in recordkeeping. The SHGs are promoted by NGOs and sometimes by the branches of various banks, government agencies etc. According to the 'State of Sector Report 2011' the number of SHGs formed by 2011 totalled over 4.8 million with an outstanding loan of ₹306.27 billion (around 5.63 billion US dollars). NABARD has been one of the largest promoters of SHGs in India. Apart from NABARD, State governments have introduced various developmental schemes to promote SHGs across the country.

As reported in the previous sections, the JLG model, which is relatively new to Indian micro-finance, is an adaptation of the Grameen model. This model, having gained popularity since the beginning of the 21st century marked the beginning of viewing micro-finance with a commercial orientation. Many organisations engaged in SHG promotion decided to opt for the JLG model owing to its easy scalability. The JLG has two significant advantages compared to the SHG: it is more compatible with the supply-driven model of micro-finance because of its shorter gestation period for turning creditworthy. An SHG, on the other hand, takes around six months to become eligible for a bank loan. NGOs engaged in on-lending* services to SHGs can reduce this time to a maximum of one month while compromising on the capacity building aspects of SHGs. Compared to this, a JLG can become eligible for a micro-loan from the very next week of its formation.

Second, unlike the SHGs, JLGs are free from the clutches of various subsidy schemes floated by the government and hence, can't be 'hijacked' easily. There are many instances where SHGs formed by NGOs are nominated by Government development staff members to become part of Government schemes. These schemes invariably have a subsidy component that eventually serves to pollute group solidarity resulting in inefficiency. Contrasting this, JLGs are more private in nature as they are, in a way, 'owned' by the on-lending agencies. This means that MFIs can exercise greater control, making them more manageable. As shown in Table 1, most high performing commercial micro-finance organisations have adopted this model because of its convenient features suiting their operational needs. The JLG is a more tightly arranged mechanism as far as delivering micro-finance services is concerned. It is a credit-led model through which about five members come together and form a group to avail of credit from the MFIs. JLGs basically comprise a self-selected unit, which means that members generally live in the same neighbourhood. During the JLG formation process, the MFI employees ask interested people to organise themselves into five-member groups. Since members come from the same neighbourhood they are well versed with each other's cash flow and credit requirements. Also, members have intelligent insights about the willingness and ability of other members to repay which fact can't be assessed through any credit rating mechanism. Like the SHGs, this model too works without any physical collateral. Members take loans from the MFI on a mutual guarantee basis. This means that if any member fails to repay on time, others pool together the default amount and make the repayment on a scheduled date. In many cases the MFIs place a penalty on the whole group by delaying or cancelling their next loan should any member fails to repay on time.

Referring to the Indian experience, it has been discerned that most JLG members are already engaged in income generating activities;

* Lending money to SHGs that is borrowed from banks or other financial institutions.

often non-farm activities. MFIs promoting JLGs, generally, do not engage in any income generation training and hence, in many instances, do not encourage people who do not have a steady flow of income. Unlike SHGs, JLG members do not undergo any extensive training in group management and the group norms are formed by the MFIs usually. The loans given within the JLG model follow a 'cycle' in which a certain amount is given to the group in the first cycle. On successful repayment of that amount, a higher amount is given in the second cycle and so on. The first cycle usually lasts up to a year and the JLGs need to make the repayment in 50 or 52 instalments on a weekly* basis. Unlike SHGs, in JLGs the terms and conditions of the loan, the maximum amount to be given as loan, purpose of the loan, etc., are normally decided by the on-lending agency. As far as Indian micro-finance is concerned, the loan amount given to an individual JLG member ranges between $92 and $920 over a period of several years. JLGs are easy to manage from the standpoint of MFIs as they have little flexibility for the members and thus, are more standardised in terms of delivering the services.

In the case of SHGs, several members join up to form a Federation which, in many instances, also takes up on-lending activities. Similar to this arrangement, the JLGs are organised around centres of five to six JLGs (comprising about 30 members). The members regularly attend centre meetings according to a compulsory meeting schedule and take out loans on a regular basis. JLGs may have an individual savings account with MFIs; however, considering the regulatory restriction on the collection of public deposit by organisations other than those regulated by the RBI, many MFIs are debarred from collecting savings from JLGs. So, savings is not a necessary component of the JLGs formed by many MFIs. The centres and groups primarily perform the function of financial intermediaries. Regular meetings are held in groups and centres often supervised by MFI workers who also maintain the savings and credit records of the groups and centres.

Loans are sanctioned in these meetings to individual members within a group the purposes of which need to be approved by the MFI at rates fixed by them. In cases where the JLGs engage in saving, the deposits are collected under a group saving fund which are then used by the group for various purposes, usually decided by the MFI. During the meetings the members also take guarantees on each others' loans with conditions including no member of a group being able to take out a new loan in case of a default. Loan applications are also appraised in these meetings by the MFI staff.

SHG And JLG: Advantages And Disadvantages : Both the SHG and JLG have their set of advantages and disadvantages depending upon the view one holds on micro-finance. Within the framework of a community-based micro-finance organisation of an SHG-driven model the objectives of micro-finance interventions go beyond the narrow confines of financial service delivery (Vasimalai & Narender, 2007). Micro-finance is seen as a powerful tool for organising the unorganised and for empowering women by allowing them to build their own institutions. The thrust is on developing the capacities of the poor so that they can manage their own financial services. This is reflected in the practices adopted by the SHG model in which most decisions are taken by the group members themselves with significant stress laid on members' skill building. On the contrary, the JLG model works primarily on the supply side framework of micro-finance wherein groups are considered to be a mere mechanism for loan disbursement which can be replicated quickly and effectively.

As presented in Table 2, SHGs are community-oriented units compared to the JLGs.

* Subsequent to the Andhra Pradesh Crisis, many MFIs have switched to monthly repayment in place of the original weekly schedule.

SHGs are owned and controlled by their members, as they decide each and every term and condition related to the functioning of the group. NGOs and banks act only as enablers and support providers so that these groups are able to flourish. The SHGs are controlled internally and sometimes this internal control restrains the longevity of the group due to internal conflict among members. The JLGs are more externally controlled by the MFIs promoting them. The terms and conditions of group functioning are often decided by the agency promoting them. Their operations may be more standardised compared to the SHGs and easy to replicate across diverse regions.

Table 2: Comparing SHG and JLG

Organisational Parameters	SHG Model	JLG Model
Ownership and control	With member (community)	With promoting MFI
Financial Focus	Saving-led	Credit-led
Capacity Focus	Builds internal capacity	Based on external capacity
Decentralisation	High	Low
Functional Focus	Poverty focus	Finance focus
Cost-effectiveness	Low	High
Flexibility	High	Low

Adopted from (Vasimalai&Narender, 2007).

Under the SHG model, group members are asked to save before becoming eligible for a loan. The focus is on offering a saving facility to rural women along with building capital from the members' savings in the long run reducing, thereby, external dependency. Although the savings collected from members are minuscule, yet in the long run (over a period of ten years or so), the group's own capital amounts to more than $3500, which is equivalent to the assistance from any Government scheme available to these SHGs. The provision of mandatory saving in SHGs has been criticised for overlooking many in the poorer section who are unable to save on a regular basis. JLGs are formed with the sole purpose of accessing loan from promoting agencies. Much of the time MFIs have taken the initiative to form JLGs by asking members to organise themselves in groups if they want to get a loan. Unlike the SHGs saving is not compulsory with the JLGs and groups are not promoted with the aim of building internal capital for inter-loaning.

Since SHGs function as autonomous financial institutions, the focus is directed more towards the building capacity of their members so that the groups can be managed by them. SHGs are often supported by more than one agency. Financial institutions like banks give them loans and donor agencies support in capacity building and skill development through NGOs. All the government schemes promoting SHGs have a large component of their budget earmarked for 'training and development'. In fact, because of the process of internal capacity building, SHGs take a longer time to become eligible for a loan from an MFI or a bank. JLGs focus very little on capacity building as they are managed externally. All operational requirements including record keeping and group management are handled by the employees of promoting MFIs. This is one of the reasons for which JLGs may be linked through a loan very early in their formation. This is one of the reasons for which the JLG has been termed as a 'fast growth model'. The SHGs, on the other hand, because of their internal control, are managed in a more democratic and decentralised way compared to JLGs.

As mentioned in the beginning of this paper, the SHG is built within the framework of collective action representing the poverty alleviation school of micro-finance. The focus is on developing a strong institution for people that will address their own development issues including poverty. The purpose of group formation is to address wider developmental issues of economic as well as social concern. The JLG is more focused and confines itself to the goal of making credit accessible to its members. Within the SHG model of micro-finance poverty is considered multi-dimensional necessitating being addressed through various strategies including finance. The MFIs catering to the JLG model of micro-finance consider rural people as having a huge demand for credit which they can meet by acting as financial intermediaries. The SHG-based model of micro-finance is concerned about making SHGs self-sustainable in the long run by following a principle of mutuality. Sustainability of the JLG-based model is about making MFIs profitable in order to reduce dependency on donors and expand the services to cater to a larger segment of the population.

SHGs are relatively cost-effective when considered from the viewpoint of lenders (Tankha, 2002). Banks have to incur very little in making the groups credit-worthy as in most instances this is done by the MFIs with grant money. Moreover, groups are taught to be self-managed and oriented towards becoming self-reliant. An MFI worker has to spend less time over group management and a single staff member may take care of a large number of groups resulting in low cost management. In the case of JLGs, the groups are managed by MFIs with employees also responsible for the group's routine operations. Thus, more employees are required to manage the JLGs compared to SHGs which makes it an expensive model.

The SHG model is entrenched at the community level as well as that of the larger banking system (Sriram, 2010). Its approach based on mutuality makes it time consuming since the understanding of how a collective based on the principle of mutuality works needs to be developed amongst group members. This approach requires members to empathise with the constraints of their fellow members. The members can't remain oblivious to the circumstances of other members during a repayment period. The SHG model is by design a slow model that goes through phases of forming, storming, norming, and performing before becoming a self-reliant people's institution (Kanitkar, 2002). The JLG-based model works on the principle of efficiency; the idea is to develop a market-based mechanism of inclusive finance whereby more and more people are covered within a short span of time under micro-finance. The principle of efficiency has brought in standardisation (Sriram, 2010) both at the level of the organisation as well as products. This standardisation of micro-finance through JLGs has taken a minimalist approach laying down that credit be made available quickly and sufficiently.

Both these models are empowering as they give women the power to take decisions regarding their finance. As an individual a woman may not have a voice in her family or society, but a group of women with financial independence can have a voice both at familial and societal levels. In India, SHGs have taken part in local politics through their federated structures and have raised their voices against many social malpractices through activism. Perceived as autonomous financial institutions JLGs have a limited requirement regarding forming any federated structure. Enjoying greater immunity to external and internal threats they are better protected by the MFIs. While they are less vulnerable they are also less empowered compared to SHGs.

Model, Contexts and Organisations : Impact of MF

The advantages of both these models do not accrue on their own; they are enabled by contextual factors and organisational (the implementing MFIs) features. The impact of an MFI is not only a direct function of the model adopted by it but depends to a large extent on where the model is adopted and by whom. There may be geographic regions that are more conducive to an SHG compared to a JLG and vice-versa. Similarly, not all types of organisations will be comfortable with a standardised model like the JLG and may prefer a more flexible model like the SHG. Some of the contextual and organisational aspects and their suitability with the model of micro-finance are discussed below.

In October 2010, a large number of suicides were reported from the southern State of Andhra Pradesh in India (Hulme, 2011; Nair, 2011). Most of these cases were related to micro-finance clients where the latter resorted to extreme measures after constant humiliation from peers and MFIs due to default on repayments. There were instances where clients took loans from eight different MFIs at one time and were repaying them by selling household properties. Critics of micro-finance argue that this overlapping in loans from different MFIs is due to severe competition amongst MFIs operating in the regions. Most MFIs follow a JLG-based model with a commercial approach. The mandate to seek high growth compels these MFIs to adopt coercive measures leading to suicides.

The situation aggravated with State governments in southern States launching their own micro-finance projects and competing with the MFIs for clients. The State-sponsored micro-finance projects are SHG-based and are implemented through State promoted autonomous bodies. Apart from competition amongst MFIs there exists competition between MFIs and the State government in the market of micro-finance. The southern States of India have a 45. 3 per cent share of the total micro-finance clientele (clients covered under JLGs, SHGs promoted outside the SBLP and individual clients) while 55.3 per cent of SHGs promoted under the SBLP hail from these southern States entirely (Srinivasan, 2011). Contrary to the predictions of proponents of the financial system approach, extreme competition has not improved efficiency having rather adversely affected client interest to the maximum. None of these models of service delivery have been effective under intense competition.

SHGs work in areas with a suitable banking network whereby the group can be linked to the banks post-formation. Since the SHGs consider the relevance of caste and class they work well in a society which is heterogeneous in composition. SHGs are easy to form in areas with a tradition of informal financial services like the Rotating Saving and Credit Associations (ROSCA). Since the SHGs require community leadership to survive and flourish, they function in a better way, where there is a tradition of community leadership. Finally, SHGs require extensive support from NGOs in the initial years. Hence, the survival and growth of SHGs are directly related to the presence of NGOs and dedicated workers apart from banks and formal financial institutions.

JLGs are appropriate in populations with greater homogeneity. Similarity, in cash flows as opposed to parity in social backgrounds is crucial to forming JLGs. The urban poor are generally organised under the JLG model considering the low sensitivity towards caste factors amongst urban populations. Since the JLGs are controlled externally, they can be formed in areas that have no history of traditional informal finance or any collective actions. Since the JLGs do not require any activism, they may be promoted without stressing on the development of community leadership. MFIs working as financial intermediaries with a minimalist approach do not intend to link groups with formal banks etc. So, the JLGs are good options in places where the networks of formal financial institutions are low. Since the JLGs are formed using a credit-led approach they are apt for places with numerous small business opportunities requiring a push in the form of affordable credit. Finally, since the JLGs do not require much capacity building support they may be easily promoted in areas with a low presence of NGOs.

To summarise, JLG best suits places that are sites of intense competition owing to external control. The SHG model, on the other hand, suits organisations intending to target those sections of the population that are without assets and want to start a new business. JLG works aptly in places where the people are already engaged in some sort of income-generating activities and require a bit of a financial push to expand their businesses. The SHG model has a stronger socio-economic development focus and attempts to uplift the unbankable from sheer poverty. The JLG model, on the other hand, focuses on the promotion of small businesses and can take in those as clients who are just above the poverty line.

Indian micro-finance organisations may be broadly divided into two categories based on their original agenda of intervention. The first category includes those organisations that started their development interventions with activities other than micro-finance. Such organisations are inspired to act as voluntary organisations to address some social problem; in most cases the problems are local in nature. Having started their intervention and experiencing success they extend their operations to address other relevant problems. For such MFIs another relevant problem is the paucity of affordable credit for the rural population, hence the urge to join the micro-finance sector. These organisations are generally managed by individuals who are greatly motivated by the idea of development. They may not be professionally qualified but are driven intrinsically to do good to the society. These organisations often hire employees with low skills and qualifications. They generally do not get carried away by management practices borrowed from business houses.

These organisations find the SHG-based model more appealing because of its collective action approach. SHGs may be used to implement various other developmental schemes and they can be effective in the long run for developing a proper withdrawal strategy for these organisations. Also, for an organisation not tempted by the lure of financial sustainability, profitability and growth, an SHG is the appropriate micro-finance vehicle. People's Education and Development Organisation (PEDO)*, an MFI based in the west Indian State of Rajasthan, has been working with SHGs since the late 1980s. PEDO has been promoted by Mr. Devi Lal Vyas who hails from the Udaipur district of Rajasthan. In the beginning, PEDO worked with tribal communities on issues related to natural resources helping them with livelihood generation. While working with tribal women, PEDO realised the need for an intervention that would make credit easily accessible to these women. This motivated them to start a micro-finance project. Since the demand for micro-finance came from the community, they focused on building a sustainable community-based micro-finance organisation.

The second category of organisations includes those managed by professionally qualified young leaders who are driven by the romantic idea of social reform through financial activism. These organisations joined the micro-

* For more details on PEDO, please refer to: http://www.pedomada.org/default.aspx

finance sector because at the time of its inception the sector was booming with grant money pouring in. Such organisations are relatively young compared to those in the first category. They are ambitious and focused on organisational growth and scalability of operations. They aspire to turn into large-sized organisations and generally find the JLG model to be more suitable.

Swayam Krishi Sangam (SKS)* micro-finance is one of the largest MFIs in Asia and the second one in the world to offer IPO. SKS was registered as a not-for-profit organisation in 1997 and was promoted by Vikram Akula, a non-resident Indian. Dr. Akula received his education in the US. Inspired by the Grameen model of micro-finance he started micro-finance operations in the State of Andhra Pradesh which later on spread to almost all parts of India. SKS, the MFI founded by Dr. Akula, embraced the JLG model of micro-finance to cater to the largest possible population and replicate the micro-finance success story across rural India. In later years, SKS converted itself into a for-profit organisation and earned huge profits from their operations. SKS has tie-ups with many business houses and follows practices borrowed from the corporate world. It is keenly focused on achieving efficiency defined in terms of financial ratios and has been projecting micro-finance as a viable business proposition while doing good to the people. The pocketing of huge dividends by the senior management after the offering of IPO and incidents of farmers' suicides linked to SKS operations maligned the image of SKS in the recent past. But with well-managed PR and gradual improvement in operations, SKS regained its lost status. Nevertheless, the initial success of SKS inspired many MFIs to take the commercial route for scaling up micro-finance operations in India. SKS may, therefore, be hailed as a path-defining organisation in the history of Indian micro-finance. The JLG model is apt for a professionally managed and rapidly growing organisation like SKS Micro-finance.

Thus, the initial mushrooming and growth of SHGs may be attributed to a need for collective action vis-à-vis poverty eradication while recognising India's stratified social structure. The growth has been the result of external influences as well an outcome of the vision of the founders. The introduction of the JLG model and its subsequent exponential growth and that of the adopting organisation also indicate the changing external and internal influences including expanding urbanisation causing reduced sensitivity towards caste structure and a romanticised view of development that has financial sustainability and scalability at heart.

There are organisations working with both models of service delivery. For some organisations the mixing of methods works well but for others the adoption of one in the presence of the other introduces complications within the organisation. The Self-Employed Women's Association (SEWA)* is a case in point. SEWA is an Ahmedabad-based organisation in Western India. SEWA, had been working through its women's cooperative bank with an SHG-based model till recently before going on to expand with the help of a JLG-based model. The organisation's larger focus on urban women necessitated a quick proliferation of operations spanning several districts within the State and beyond. Finding the JLG model to be a more suitable option, the associated bank adopted it for the existing employees in the current neighbourhood. While complete adoption of the JLG-based model is yet to be accomplished there have been employee-grievances regarding its efficacy. The adoption is accompanied by new practices borrowed from

* For more details on SKS, please refer to: http://www.sksindia.com/

* For more details on SEWA, please refer to: http://www.sewa.org/

commercial business organisations that many existing employees entrenched in the SHG culture find to be a 'soul-less' intervention. Thus, the increasingly complex environments in which social service organisations operate do determine the nature and design of the programmes (Helting & Botein, 2010). However, it also needs to be recognised that programme fidelity or the lack of it is also a function of internal (organisational) factors.

Conclusion

This paper presents the two prominent models of micro-finance in the Indian micro-finance sector bringing in contextual factors along with organisational features to assess the suitability of these models. SHGs complement a region with a higher number of NGOs and formal financial institutions and with implementing organisations having a clear development agenda not limited to micro-finance only. Similarly, JLGs are best for regions with homogeneous and enterprising populations not having easy access to formal financial institutions; they should be adopted by organisations with a commercial approach and professionally managed manpower. Organisations often adopt models based on their ideological inclination and availability of funding support either from banks or donors. Not much attention has been given to the internal strength of organisations and regional characteristics. Organisational culture, leadership and structure and their relationship to the adopted model and its effect on the performance of the MFI require a more detailed examination substantiated by additional empirical studies. Similarly, the reason SHGs flourish in certain communities and JLGs fail in others requires a more detailed empirical investigation of the external forces. Findings from these empirical studies will be of immense use to strategic decision-makers in micro-finance organisations.

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Annexure A

Organisation	Websites
Swayam Krishi Sangam (SKS) Microfinance Ltd	http://www.sksindia.com/
Spandana Sphoorty Financial Ltd	http://www.spandanaindia.com/
Share Microfin Ltd	http://www.sharemicrofin.com/
Asmitha Microfin Ltd	http://www.asmithamicrofin.com/home.html
Sri Khestra Dharmasthala Rural Development Project	http://www.skdrdpindia.org/
Bhartiya Smaruddhi Finance Ltd	http://www.basixindia.com/
Bandhan	http://www.bandhanmf.com
Cashphor Micro Credit (CMC)	http://www.cashpor.in/
Grama VidIyal Microfinance Pvt Ltd	http://gvmfl.com/
Grameen Financial Services Pvt. Ltd	http://gvmfl.com/